



United States Department of the Interior

BUREAU OF RECLAMATION
Central Valley Operations Office
3310 El Camino Avenue, Suite 300
Sacramento, California 95821

IN REPLY
REFER TO:

CVO-600

PRJ-1.10

AUG 08 2003

Western Area Power Administration
Attn: Tom Carter, Operations Manager
114 Parkshore Drive
Folsom, California 95630-4710

Subject: Post-2004 Operations Alternatives for the Central Valley Project

Dear Mr. Carter:

Attached are the Bureau of Reclamation's (Reclamation) comments related to the Post-2004 operational alternatives being analyzed by our agencies. Not only do Reclamation facilities produce the Central Valley Project (CVP) power, we also are its largest customer in terms of energy used, therefore, we remain extremely interested in the decision making that will affect the CVP operations for many years. We appreciate the involvement in this process that has occurred to date and look forward to continue our participation as the process evolves.

You will note that Reclamation has concerns as to what the final operational scheme may be. Many of these concerns are attributed to the unknown nature of the final details that have yet to be worked out and pertain to the future operational arrangements that will exist between our two agencies. We remain committed to protecting the interests of our water beneficiaries and meeting water management obligations/constraints including meeting fishery temperature, flow, and water quality targets, and controlling flood risks. The opportunity to provide input to Western in this important decision making process is greatly appreciated

Sincerely,

Chester V. Bowling
Operations Manager

**RECLAMATION COMMENTS
ON
POST-2004 OPERATIONAL ALTERNATIVES
FOR THE CENTRAL VALLEY PROJECT**

August 8, 2003

Statutory Obligations

Since the Central Valley Project's (CVP) authorization and construction, the Bureau of Reclamation has been involved with all aspects of its operation. In 1977, the CVP power marketing functions (that until that time were performed by Reclamation), and the transmission facilities were transferred to the newly created Western Area Power Administration and, since the CVP is primarily a water management project, the operation and maintenance of the hydroelectric powerplants remained with Reclamation. The movement of water through the CVP powerplants generate electricity as the water is used to meet authorized purposes and constraints including satisfying fishery flow objectives, meeting to temperature and other water quality targets, controlling flooding risks, and delivering water to agricultural, municipal, and industrial water customers.

Reclamation law and federal statutory obligations mandated by Congress that affect Reclamation projects are complicated and easily misunderstood by many State regulatory agencies throughout the West. As a result, jurisdictional issues often result. Reclamation law requires that CVP generation is first to be used to meet CVP pumping requirements with any excess to then be made available to 1st preference and preference power customers. This legal requirement cannot be compromised. These same statutes prevent dropping CVP pump load for any demand side management reason without first dropping all loads served by the excess CVP generation. Without Reclamation's constant vigilance of the above priorities, many typical control areas, including the California ISO, have difficulty accommodating these federal statutory obligations.

Western Area Power Administration operates four other control areas in the western U. S. in which Reclamation generation and project loads are located. Reclamation generation and project load are also located in the Bonneville Power Administration (BPA) control area in the Pacific Northwest. Western and BPA understand the many complications that federal law and regulatory jurisdictional issues present to Reclamation's facility operations and water management obligations. The rich history of jointly operating these federal generation-load-transmission systems with Western and BPA provides a level of comfort to Reclamation's management. The struggles and unknowns associated with operating in a new regulatory environment, such as the California ISO with its 55 amendments to its tariff, and that is unfamiliar with the statutory obligations under which the CVP must be operated, is not a preferable option for Reclamation, without some form of contractual arrangement between CAISO and Reclamation to preserve Reclamation rights, (such as with a metered sub-system as discussed below).

Sub-Control Area

Under the federal control area alternative, approximately 50 per cent of Reclamation's annual pumping load would not be directly connected to the CVP transmission system. Reclamation favors development of a federal control area, which includes all Reclamation project use loads and not just those project use load directly connected to the CVP transmission system. A second approach is to include Reclamation's project use loads and generation system within a sub-control area. A sub-control area could be structured to facilitate meeting Reclamation's statutory requirements to first serve project use needs before meeting preference load commitments. Contractual arrangements with the sub-control area that set forth terms and conditions associated with Reclamation generation and project use load would be required. These would provide effective recourse for Reclamation should operational issues or disagreements develop. This sub-control area would provide that CVP project loads are to be met with CVP generation and CVP ancillary services and because it is implemented by contract, would be a durable approach approximating the benefits of a federal control area. Reclamation is supportive of operating its generation system and project loads within a sub-control area subject to specific terms and conditions.

CVP Resources

CVP resources (energy production, ancillary services, and transmission facilities) were authorized for the benefit of CVP water and power customers. Reclamation will work with Western under a federal control area operation, to ensure CVP resources will first be used by Western to serve both those project use customers within in the federal control area and those that are not. Western and Reclamation should jointly develop scheduling and accounting mechanisms that will spread the benefits of CVP resources to these project use customers, and which bill non-project/non-preference entities directly connected to the federal transmission system for higher cost resources necessary to provide ancillary services and balancing activities to the control area.

Reclamation as a Customer

CAISO staff has spent the last several months expressing their belief that the creation of the federal control area would cause a "cost shift" to CAISO. Reclamation receives the largest amount of CVP power as it has simultaneous load levels approaching 700 MW. The CVP generation and transmission system were conceived and constructed with the purpose of serving this CVP pumping and water conveyance load. The CVP system has been defined and operated essentially without major changes since the 1950s; well before creation of the CAISO in 1996. Costs of CVP operation have not changed significantly except due to escalation or increased maintenance as the facilities have aged. This situation would change significantly should the CVP become a part of the CAISO. Costs will be shifted to CVP customers from the CAISO. The federal control area is an attempt to prevent these CAISO costs from shifting to or being assessed to the CVP. As the largest CVP load, Reclamation does not want the CVP beneficiaries to be exposed to CAISO operational costs beyond what historical CVP cost of operations have been.

Balancing Benefits/Costs

Over the years, Western and Reclamation have strived in their operation of the CVP to balance its costs and benefits to all its authorized CVP beneficiaries; including water and power customers. Rate structures developed by Western have, historically, been very fair in this regard. The creation of a federal control area on its surface appears to create a shift in the balance of the CVP resource benefit to those fortunate few CVP customers who are directly connected to the CVP transmission grid.

Western is also undertaking a formal rates development process in parallel with the Administrative Procedures Act (APA) process associated with the federal control area formation process. Unfortunately, the two processes overlap in regards to establishing cost impacts of the federal control area for those CVP customers who are not directly connected to the federal system. Because a large amount of Reclamation pumping load would not be directly connected to the federal transmission system in the proposed federal control area, Reclamation may be forced to alter the cost recovery requirements for Western in order to ensure equitable treatment of benefits. Reclamation will continue to work with Western to achieve the most widespread and equitable distribution of CVP benefits to all CVP customers, both water and power, as the rates and control area processes proceed.

Pacific AC Intertie

Reclamation is in support of Western obtaining federal ownership and operation rights on the PACI to include arrangements for completing the transmission and substation facilities necessary to do so. The history related to the authorization, construction, and operation of the PACI is well documented in transcripts of testimony before Congress. The PACI's primary purpose was to provide a transmission path to Northwest power resources needed for efficient operation of the CVP. Had the federal government instead decided to build its own line rather than obtain a contract path through the PACI, transmission arrangements for CVP needs would not be an issue today. Western should continue its plans to obtain the PACI as a part of the federal control area.

Additional Transmission to Federal Loads

As part of serving CVP project use load to be directly connected to the federal control area transmission system, Reclamation urges Western to begin taking necessary steps to secure federal ownership in transmission facilities for serving the San Luis generation/pumping facilities. Reclamation recognizes that alternative transmission arrangements currently exist under contract until 2016, however, plans and actions should be developed Western to acquire such transmission facilities to directly connect the facilities to the federal transmission system as soon as practical.